Nos. 86-495, 86-624, 86-625

IN THE

Supreme Court of the United States

October Term, 1986

Supreme Court, U.S.
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K MART CORPORATION,

Petitioner,

v.

CARTIER, INC., *et al.*,

Respondents.

47TH STREET PHOTO, INC.,

Petitioner,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,

Respondents.

UNITED STATES OF AMERICA, *et al.*,

Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,

Respondents.

ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

BRIEF OF *AMICUS CURIAE* LEVER BROTHERS COMPANY IN SUPPORT OF RESPONDENTS

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May 7, 1987

Questions Presented

1. Whether the United States Customs Service regulations which permit the importation of "grey market" merchandise are consistent with § 526 of the Tariff Act?

2. Whether the Customs Service regulations are consistent with § 42 of the Lanham Act?

Parties to the Proceeding

The petitioners are K Mart Corporation ("K Mart"); 47th Street Photo, Inc. ("47th Street Photo"); and the United States of America, James A. Baker, III, Secretary of the Treasury, and William von Raab, Commissioner of the United States Customs Service (the "federal petitioners"). The respondents are Cartier, Inc.; Charles of the Ritz Group, Ltd.; and Coalition to Preserve the Integrity of American Trademarks ("COPIAT"). The petitions have been consolidated for consideration by the Court upon the application of petitioner United States of America.

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BRIEF OF *AMICUS CURIAE* LEVER BROTHERS COMPANY IN SUPPORT OF RESPONDENTS

Interest of *Amicus Curiae* [1]

Petitioners contend that the Customs Service regulations (19 C.F.R. § 133.21) provide a reasoned and "limited exception" to § 526 of the Tariff Act (19 U.S.C. § 1526) and § 42 of the Lanham Act (15 U.S.C. § 1124) since the regulations purportedly discourage foreign manufacturers from enforcing exclusive distribution agreements in the United States. (*See* Brief for the Federal Petitioners, p. 9; Brief of Petitioner K Mart Corporation ("K Mart Brief"), pp. 37-39; Brief for Petitioner 47th Street Photo, Inc. ("47th Street Photo Brief"), pp. 45-50.) This rationale is predicated upon the erroneous assumption that all "grey market" scenarios are relatively homogeneous. The "grey market", however, is not limited to the parallel importation of substantially identical authorized and unauthorized merchandise originating from a common foreign source. As the Court of Appeals for the Federal Circuit observed in *Vivitar Corp.* v. *United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, — U.S. —, 106 S. Ct. 791 (1986), "[t]he variations of the grey market are myriad." Premised exclusively upon the corporate relationship between domestic and foreign trademark registrants, the regulations have subverted the legitimate interests of American capital, labor and the consuming public.

Lever Brothers Company ("Lever Brothers") is confronted with the most invidious type of "grey market" scenario. Lever Brothers, the American manufacturer of quality trademarked merchandise, is affiliated indirectly

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[1] Pursuant to Supreme Court Rule 36.2, all of the parties to this proceeding have consented to the submission of this brief. The parties' written consents have been filed with the Clerk of this Court. This *amicus curiae* brief is submitted in support of the Coalition to Preserve the Integrity of American Trademarks and the other respondents.

with foreign entities which manufacture similarly trademarked products for consumption overseas. While the products are facially similar, there are significant inherent differences between the trademarked merchandise manufactured by Lever Brothers for domestic consumption and the similarly trademarked merchandise produced by its foreign affiliates. Relying upon the regulations, the Customs Service has sanctioned the importation of increasing quantities of this foreign merchandise over the past four years. The influx of this "grey market" merchandise into the American marketplace has created substantial consumer confusion and threatens to damage irreparably Lever Brothers' reputation for the sale of high quality merchandise. Since this "grey market" scenario serves to crystalize the deficiencies inherent in the simplistic Customs Service regulations, a more detailed review of the evidence is appropriate.[2]

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[2] On November 17, 1986, Lever Brothers commenced an action against the federal petitioners seeking a permanent injunction directing the federal petitioners to prohibit the importation of foreign-manufactured products bearing its "Shield" and "Sunlight" trademarks pursuant to § 526 of the Tariff Act and § 42 of the Lanham Act. In conjunction with the commencement of that action, Lever Brothers sought preliminary injunctive relief. By Memorandum and Order dated January 21, 1987, the United States District Court for the District of Columbia denied that application. *Lever Brothers Company* v. *United States of America, et al.*, No. 86-3151, slip op. (D.D.C. January 21, 1987).

Lever Brothers thereafter filed an interlocutory appeal and requested that the Court of Appeals for the District of Columbia Circuit enter injunctive relief pending appeal. The Court of Appeals denied that application, and entered an order directing that the appeal be held in abeyance pending the disposition of this proceeding. *Lever Brothers Company* v. *United States of America, et al.*, No. 87-5051, slip op. (D.C. Cir. March 19, 1987).

On March 6, 1987, Lever Brothers filed a petition for a writ of certiorari with this Court (Case No. 86-1439). That petition affords this Court an opportunity to consider Lever Brothers' claims in conjunction with this proceeding.

A. Lever Brothers' "Shield" and "Sunlight" Trademarks

Lever Brothers is a corporation organized under the laws of the State of Maine which maintains its principal place of business in New York City. Lever Brothers is engaged in the manufacture and interstate distribution of various household products, including soaps and liquid detergents. (A111, ¶ 2)[3]

Lever Brothers has manufactured and distributed high quality deodorant soap throughout the United States under its "Shield" trademarks since approximately 1977. "Shield" deodorant soap is manufactured in Hammond, Indiana. Lever Brothers has applied the "Shield" trademarks to soap products since approximately 1956. (A112, ¶ 3) These trademarks have been entered on the Principal Trademark Register of the United States Patent and Trademark Office as Registered Trademark Nos. 647,223, 1,077,719, 1,134,406 and 1,250,113. (A119-A122) These registrations are currently in full force and effect, and were recorded with the Customs Service on October 1, 1986. (A124-A131)

Over the past six years, Lever Brothers has expended approximately $177.9 million advertising and promoting its "Shield" soap products. As a result of this substantial investment, "Shield" deodorant soap has achieved national distribution in retail grocery outlets representing 88% of domestic grocery volume, and has attained a 7.8% share of the deodorant soap market. (A112, ¶ 4)

Lever Brothers has manufactured and distributed a light duty liquid detergent on a national basis under its "Sunlight" trademarks since approximately 1979. "Sunlight"

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[3] Citations to the Appendix submitted to the Court of Appeals in conjunction with Lever Brothers' application for an injunction pending appeal are designated (A[page]).

detergent is manufactured in Baltimore, Maryland, St. Louis, Missouri, and Los Angeles, California. Lever Brothers and its predecessors have applied the "Sunlight" trademarks to soap and detergent products since 1884. (A112, ¶ 5) These trademarks have been entered on the Principal Trademark Register of the United States Patent and Trademark Office as Registered Trademark Nos. 14,441, 58,465 and 1,148,608. (A165-A172) These registrations are currently in full force and effect, and were recorded with the Customs Service on October 1, 1986. (A174-A187)

Since its introduction in 1979, "Sunlight" detergent has achieved an 8.9% share of the light duty liquid detergent market. (A113, ¶ 6) Over the past six years, Lever Brothers has incurred expenditures of approximately $245.1 million advertising and promoting "Sunlight" detergent. (A113, ¶ 6)

These "Sunlight" and "Shield" products have been widely accepted by the consuming public. "Sunlight" detergent sales have increased from $8.86 million in 1981 to $94.09 million in 1985. Similarly, "Shield" deodorant soap sales have increased from $4.6 million in 1980 to $43.6 million in 1985. (A113, ¶ 7) These trademarks serve to identify Lever Brothers as the exclusive source of these high quality soap and detergent products.

B. The "Grey Market" Products

Lever Brothers is a wholly-owned subsidiary of Unilever United States, Inc., which is wholly-owned by Unilever N.V. ("Unilever"), a corporation organized under the laws of the Netherlands. Due to its corporate relationship with Unilever, Lever Brothers is affiliated indirectly with a number of foreign registrants of the "Shield" and "Sunlight" trademarks. Affiliated foreign manufacturers produce

"Shield" deodorant soap and "Sunlight" detergent for consumption in countries other than the United States. (A114, ¶ 8; A124-A131; A174-A187)

For example, Lever Brothers Ltd., a corporation organized under the laws of the United Kingdom, produces "Shield" and "Sunlight" products for consumption in the United Kingdom. Since approximately 1983, many importers and distributors have diverted these "Shield" products from foreign markets into the United States. Diverters have similarly imported these "Sunlight" products into the United States since at least January 1986. Lever Brothers has not sanctioned the distribution of this diverted merchandise in the United States. Due to differing material costs and market conditions, including varying currency exchange rates, this diverted "Shield" and "Sunlight" merchandise is typically less expensive than the "Shield" deodorant soap and "Sunlight" detergent manufactured by Lever Brothers. (A114, ¶ 9; A243, ¶ 11)

C. The "Shield" and "Sunlight" Products Manufactured by Lever Brothers and its Foreign Affiliates Differ Significantly.

While the products are facially similar, there are significant differences between the "Shield" and "Sunlight" products manufactured by Lever Brothers and its foreign affiliates. For example, the "Shield" and "Sunlight" products manufactured by Lever Brothers and its British counterpart have been specially formulated to (a) achieve optimal efficacy under differing environmental conditions, (b) satisfy the particular preferences of American and British consumers and (c) conform to differing regulatory standards. (A213, ¶ 4)

Due to higher concentrations of coconut soap and fatty acids, Lever Brothers' "Shield" deodorant soap ("US

Shield") generates a richer and more substantial lather than the "Shield" deodorant soap produced by its British affiliate ("UK Shield"). (A214, ¶ 7; A220-A225; A227-A231) In addition, US Shield contains a bacteriostat which enhances substantially the deodorant properties of US Shield by inhibiting the reproduction of bacteria. Due to differing climatic conditions and consumer preferences, UK Shield does not contain any bacteriostat. (A215, ¶ 11; A220-A225; A233) Finally, the deo-perfume formulas and colorants in US and UK Shield differ significantly. While US Shield's colorants have been certified by the Food and Drug Administration ("FDA"), the colorants in UK Shield have not been certified by the FDA.[4] (A216, ¶¶ 12, 13)

Similarly, the "Sunlight" detergent manufactured by Lever Brothers ("US Sunlight") differs substantially from the "Sunlight" detergent produced by its British affiliate ("UK Sunlight"). US Sunlight has been formulated to achieve optimal efficiency under prevailing environmental conditions in the United States. British water has a higher mineral content than the water available in most metropolitan areas of the United States. Whereas UK Sunlight performs effectively in British "hard water", US Sunlight demonstrably outperforms UK Sunlight in the "soft water" generally available in this country.[5] (A217, ¶¶ 15-18; A235-A238)

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[4] UK Shield may violate a number of federal regulatory standards. UK Shield, which is labeled as a "Soap Deodorant", does not bear an ingredient statement, as required by law. 21 C.F.R. § 701.3 (1986). Moreover, the net weight statement on the UK Shield package is determined within 24 hours of manufacture. Due to moisture loss during transshipment, this net weight statement will not "accurate[ly] state[ ] . . . the quantity of the contents of the package." 21 C.F.R. § 701.13(a), (s) (1986). (A216, ¶ 13 n. 2)

[5] Lever Brothers unconditionally guarantees its "Shield" and "Sunlight" merchandise. These guarantees do not encompass its British affiliate's products. (A213, ¶ 4 n. 1)

D. Damage to Lever Brothers and the American Consumer

The recent influx of these "grey market" products has created substantial consumer confusion respecting the origin of this merchandise, and threatens to damage irreparably Lever Brothers' reputation for the sale of high quality products. Formulated for a different market, UK Shield and Sunlight will inevitably disappoint many American consumers. The resulting injury to Lever Brothers' reputation will necessarily compromise its sales of US Shield, Sunlight and other products. (A115, ¶ 11; A243, ¶ 9)

As Ms. Eileen S. Farnham of Upper Marlboro, Maryland, wrote respecting her purchase of UK Shield:

> "I have sensitive skin and need a deodorant soap. For several years now, I have used *Shield* exclusively. I recently got a good buy at a local 'discount' chain. Bought six bars, with scarce attention to the new packaging on 'my' familiar product! This soap *can't* be my *Shield*! It smells—and is—harsh. If you've changed it, here is one emphatic vote for changing it back! Is this a 'counterfeit'? Do you formulate differently for a British market (belatedly noticed the fine print). I don't even want to use the other five bars. It's not even the same color or shape.
>
> "I'm disappointed. I feel tricked. And now I guess I have to start trying to find some other soap to like and trust."

(Copies of Ms. Farnham's letter to Lever Brothers, dated December 15, 1985, and other consumer complaint letters are reproduced at A197-A210.)

Moreover, the continuing importation of UK Shield and Sunlight has resulted in lost US Shield and Sunlight sales of at least $4,615,026.80, and $437,931.02, respectively, and deteriorating sales force morale. (A244, ¶ 12; A247-A290; A292-A294)

Summary of the Argument

In assessing the propriety of the Customs Service regulations, this Court should consider the "grey market" scenario confronted by Lever Brothers. This "grey market" scenario serves as a prism through which the inadequacies of the regulations are clearly defined.

Lever Brothers is *not* a sales agent for a foreign manufacturer. Lever Brothers is an American manufacturer which employs domestic labor to produce high quality trademarked merchandise for distribution in the United States. The "grey market" merchandise produced by Lever Brothers' foreign affiliates is *not* substantially identical to the trademarked products manufactured by Lever Brothers. Indeed, the significant inherent differences between these products have created substantial consumer confusion which threatens to compromise the goodwill which Lever Brothers has generated in the United States.

Premised exclusively upon the corporate relationship between domestic and foreign trademark registrants, the regulations are inconsistent with § 526 of the Tariff Act and § 42 of the Lanham Act. These statutory import prohibitions clearly protect the interests of American manufacturers and domestic trademark registrants which have developed independent goodwill in the United States. The Customs Service cannot continue to ignore the interests of American manufacturers, like Lever Brothers, which have developed independent goodwill in this country. As viewed through the "grey market" scenario presented by this *amicus curiae,* petitioners can hardly deny that the regulations undermine the interests of American capital, labor and the consuming public.

ARGUMENT

I.

The Customs Service Regulations Are Inconsistent with § 526 of the Tariff Act.

In view of the comprehensive analysis of § 526 of the Tariff Act by the Court of Appeals for the District of Columbia Circuit and the substantial discussion of this statute by respondents, this *amicus curiae* will not belabor this Court with further detailed analysis of the statute and its legislative history. Rather, we shall briefly review the statute in the interest of supplementing respondents' analysis of § 526 of the Tariff Act.

The broad import prohibitions of § 526 cannot fairly be characterized as ambiguous. (K Mart Brief, p. 15; 47th Street Photo Brief, pp. 19-22.) Section 526 of the Tariff Act requires the Customs Service to exclude from entry into the United States any foreign-manufactured merchandise bearing a trademark registered by a United States citizen or corporation absent the domestic registrant's consent. As the Court below observed, the prohibitory terms of § 526 could not be any clearer and its "review of the circumstances prompting the enactment of Section 526 and its legislative history persuade us that the statute embodies a purpose as sweeping as the terms its drafters employed." *Coalition to Preserve the Integrity of American Trademarks* v. *United States,* 790 F.2d 903, 909 (D.C. Cir. 1986), *cert. granted,* — U.S. —, 107 S. Ct. 642 (December 8, 1986) (*"COPIAT"*). *Accord, United States* v. *Eighty-Nine (89) Bottles of "Eau de Joy",* 797 F.2d 767 (9th Cir. 1986); *Premier Dental Products Co.* v. *Darby Dental Supply Co.,* 794 F.2d 850 (3d Cir.), *cert. denied,* — U.S. —, 107 S. Ct. 436 (1986); *Vivitar Corp.* v. *United States, supra,* 761 F.2d at 1165.

While the breadth of the legislative history of § 526 has been disputed, there can be no doubt that § 526 was enacted to protect the trademark interests of American manufacturers like Lever Brothers. As the Conference Committee Report accompanying the 1922 Tariff Act observed:

> "A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. *The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer;* and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States."

H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922) (emphasis supplied).

The evolution of the Tariff Act of 1930 further confirms that the Congress intended that § 526 protect the interests of American manufacturers of trademarked merchandise. The bill proposed by the House of Representatives (H.R. 2667, 71st Cong., 1st Sess. (1929)) provided for the reenactment of § 526(a) without substantive modification. The Senate, however, proposed to modify § 526(a) by omitting the clause which permits a United States trademark owner to consent to the importation of foreign-manufactured products bearing its registered trademark. S. Rep. 37, 71st Cong., 1st Sess. 75 (1929). The proposed amendment represented an attempt to prevent American manufacturers from relocating facilities overseas and thereby displacing domestic labor.

While § 526(a) was reenacted without modification, the proposed amendment was predicated upon the assumption that § 526 inured to the benefit of all American manufacturers of trademarked merchandise and that, by deleting the "consent" clause, these manufacturers would be discouraged from relocating their facilities overseas and importing their foreign-manufactured products. As Senator George, who opposed the amendment but agreed with its proponents' interpretation of § 526, observed:

> "The section, as it exists in the present law, provides means whereby a manufacturer in this country can register his trade-mark . . . and prevent the importation of merchandise bearing an infringing trade-mark."

71 Cong. Rec. 3872 (1929).

The Congress has never intimated that an American manufacturer's affiliation with foreign trademark registrants would deprive the manufacturer of these protections. Section 526 is not so conditioned, and there is no support in the legislative history of either the 1922 or 1930 Tariff Acts which would support such a distorted interpretation of § 526 of the Tariff Act.

II.

The Customs Service Regulations Are Inconsistent with § 42 of the Lanham Act.

A dispositive review of the regulations may entail the consideration of both § 526 of the Tariff Act and § 42 of the Lanham Act.[6] The regulations are predicated upon

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[6] The petitions for writs of certiorari submitted by the United States, 47th Street Photo, and K Mart only asked this Court to

(footnote continued on following page)

§ 526 of the Tariff Act and § 42 of the Lanham Act, and restrict the federal petitioners' enforcement of these import prohibitions. The regulations, therefore, may not be sustained unless they are consistent with both § 526 of the Tariff Act and § 42 of the Lanham Act.

The Tariff and Lanham Act import prohibitions do not necessarily implicate the same trademark interests. *COPIAT, supra,* 790 F.2d at 910 n. 10; *In re Certain Alkaline Batteries,* 225 USPQ 823 (I.T.C. 1984), *disapproved,* 225 USPQ 862, *app. dismissed sub nom. Duracell, Inc.* v. *U.S. Int'l Trade Comm'n,* 778 F.2d 1578 (Fed. Cir. 1985). Section 526 of the Tariff Act expressly prohibits the importation of foreign-trademarked products absent the consent of the domestic trademark registrant. This legislation represented the Congressional response to the continuing ratification of the principle of trademark "universality" in *A. Bourjois & Co.* v. *Katzel,* 275 F. 539 (2d Cir. 1921), *rev'd,* 260 U.S. 689 (1923). In *Katzel,* the Court of Appeals for the Second Circuit held that a domestic trademark registrant could not enjoin the distribution of foreign-trademarked merchandise so long as a foreign registrant had authorized the use of the trademark. Section 526 only requires that the domestic registrant be a United States citizen or corporation. The application of § 526 is not expressly conditioned upon the development of domestic goodwill or the likelihood that the foreign merchandise will create consumer confusion.

(footnote continued from preceding page)

consider whether the regulations were consistent with § 526 of the Tariff Act. While K Mart's petition refers obliquely to § 42 of the Lanham Act, the brief which K Mart has submitted requests that the regulations be reviewed under § 42 of the Lanham Act. (K Mart Brief, p. (i).) The briefs submitted by K Mart and 47th Street Photo have addressed this issue. (K Mart Brief, pp. 37-39; 47th Street Photo Brief, pp. 45-50.)

Section 42 of the Lanham Act, which reenacted § 27 of the Trade-Mark Act of 1905, prohibits the importation of "cop[ies]" or "simulat[ions]" of a registered trademark. This Court defined the scope of this prohibition over 60 years ago. As interpreted by this Court in *A. Bourjois & Co.* v. *Aldridge*, 263 U.S. 675 (1923), and *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), § 27 of the Trade-Mark Act and its successor prohibit the importation of genuine merchandise bearing a domestic trademark if the domestic registrant has developed independent goodwill and the distribution of the foreign merchandise is likely to create consumer confusion. (*See* discussion *infra* at 17-20.)

Due to the limited evidentiary record developed before the District Court, this case may not afford this Court an opportunity to explore fully the trademark interests implicated by § 42 of the Lanham Act. In this case, COPIAT, a trade association comprised of numerous American trademark registrants, challenged the validity of the regulations. COPIAT did not seek declaratory or injunctive relief addressed to specific trademarked merchandise. In conjunction with its motion for summary judgment, COPIAT offered evidence which was generally limited to the parallel importation of authorized and "grey market" merchandise originating from a common foreign source. Although warranties and other ancillary services differed, the authorized and "grey market" products were substantially identical. (*See* Plaintiff's Statement of Material Facts as to Which There is No Dispute, dated April 4, 1984 ("Plaintiff's Statement"), together with Exhibits 1 through 6.)[7] Consequently,

[7] The statement submitted by Robert H. Miller, President of Charles of the Ritz Group Ltd., indicates that most of the "Opium" perfume which is distributed in the United States through authorized channels is manufactured in New Jersey. Mr. Miller, however,

(footnote continued on following page)

COPIAT only offered limited evidence of independent domestic goodwill and consumer confusion resulting from these "grey market" products. These "grey market" products do not adequately highlight the significant trademark interests implicated by § 42 of the Lanham Act.

This limited record may serve to distort this Court's analysis of § 42 of the Lanham Act. Indeed, K Mart's summary discussion of § 42 of the Lanham Act serves to underscore the analytical deficiencies invited by the limited record generated before the District Court in this case. Relying upon the record below, K Mart argues that "there can be no confusion of source as to parallel distribution imports, which are, by definition, manufactured and trademarked with the authorization of the trademark holders . . . [and] there can be no 'American goodwill' separate from the global goodwill which the foreign parent company has generated." (K Mart Brief, p. 38.)

"Grey market" merchandise, however, is not limited to the parallel importation of substantially identical merchandise originating from a common foreign source. The "parallel import" evidence offered by COPIAT tends to oversimplify the "grey market" and obfuscate the significant trademark interests advanced by § 42 of the Lanham Act.

(footnote continued from preceding page)

suggests that, while the packaging may differ, the "Opium" perfume manufactured in the United States and France are qualitatively identical. (Plaintiff's Statement, Exhibit 2, ¶¶ 5, 16.)

Similarly, the statement submitted by Pierre Valentin, Vice President and Treasurer of the Commercial Division of Michelin Tire Corporation, indicates that most of the "Michelin" tires which are distributed in the United States through authorized channels are manufactured in North America. Mr. Valentin, however, does not claim that diverted "Michelin" tires differ from those manufactured in the United States. (Plaintiff's Statement, Exhibit 4.)

The "grey market" scenario presented by Lever Brothers sharply focuses the trademark interests implicated by § 42 of the Lanham Act since it does not involve the parallel importation of substantially identical authorized and "grey market" merchandise. Lever Brothers' "Shield" and "Sunlight" products are manufactured in the United States for domestic consumption. The competing "grey market" products are manufactured overseas for foreign consumption. Lever Brothers is only affiliated indirectly with these foreign manufacturers, and has no control over their sale of "Shield" and "Sunlight" products.

Lever Brothers has clearly developed goodwill in its "Shield" and "Sunlight" trademarks which is factually distinct from the goodwill associated with those marks in foreign countries. *See Osawa & Co.* v. *B & H Photo,* 589 F. Supp. 1163, 1172-74 (S.D.N.Y. 1984). Lever Brothers has expended approximately $423 million advertising and promoting its "Shield" and "Sunlight" products in the United States over the past six years. (A112, ¶ 4; A113, ¶ 6) As a result of this substantial investment, Lever Brothers' "Shield" and "Sunlight" products have attained 7.8% and 8.9% shares of the national deodorant soap and light duty liquid detergent markets. *Id.* The American public associates these products with Lever Brothers, not with affiliated foreign registrants of the marks.

Unlike the parallel imports involved in *Vivitar, Olympus Corp.* v. *United States,* 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed,* 55 U.S.L.W. 3372 (November 6, 1986) (No. 86-757), *NEC Electronics* v. *CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987), and this case, the "Shield" and "Sunlight" products manufactured by Lever Brothers' foreign affiliates are substantially different from Lever Brothers' "Shield" and "Sunlight" merchandise.

Indeed, the evidence offered by Lever Brothers in its action against the federal petitioners established that the "Shield" and "Sunlight" products manufactured by Lever Brothers and its British counterpart have been specially formulated to (a) achieve optimal efficacy under differing environmental conditions, (b) satisfy the particular preferences of American and British consumers and (c) conform to differing regulatory standards. Formulated for different markets, the domestic distribution of foreign "Shield" and "Sunlight" products has resulted in substantial consumer confusion and damaged Lever Brothers' reputation for the sale of high quality merchandise. By adopting a simplistic standard predicated exclusively upon the corporate relationship between the American and foreign registrants, the federal petitioners have failed to recognize that "grey market" merchandise may seriously compromise the interests of American capital, labor and the consuming public.

This simplistic corporate litmus test is inconsistent with the trademark principles espoused by this Court in *Katzel* and *Aldridge*. In *Katzel* and *Aldridge*, this Court rejected the trademark "universality" doctrine, and adopted the principle of trademark "territoriality". As the Court of Appeals observed in this case:

> "Justice Holmes' opinion adopted what has come to be called the 'territoriality' theory of trademark. This approach maintains that the source and scope of trademark protection arise from the law of a *particular* sovereign state, and thus that it is meaningless to discuss the 'genuineness' of a trademark in the abstract. *See* Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulations 19 C.F.R. § 133.21*, 54 Fordham L. Rev. 83, 106-109 (1986). Justice Holmes wrote:

> 'It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law [, and, it is found, by public understanding] that the goods come from the plaintiff although not made by it.' 260 U.S. at 692 . . . ."

COPIAT, supra, 790 F.2d at 909-10 (footnote omitted; emphasis in original).

In rejecting the "universality" doctrine, this Court recognized that the protections afforded American registrants and consumers by the trademark laws do not end at our shores. The relationship between the domestic and foreign trademark registrants was not determinative. *See Original Appalachian Artworks, Inc.* v. *Granada Electronics, Inc.,* No. 86-7670, slip op. (2d Cir. April 7, 1987). The standard, as suggested by this Court in *Katzel,* was whether the domestic registrant had developed sufficient goodwill in its trademark to warrant protection under the trademark laws. Indeed, this Court expressly found that plaintiff had expended substantial resources developing goodwill in the United States:

> "[Plaintiff] uses care in selecting colors suitable for the American market, in packing and in keeping up the standard, and has spent much money advertising, etc., so that the business has grown very great and the labels have come to be understood by the public here as meaning goods coming from the plaintiff."

A. Bourjois & Co. v. *Katzel, supra,* 260 U.S. at 691.

Prestonettes, Inc. v. *Coty,* 264 U.S. 359 (1924), does not, as suggested by petitioners K Mart and 47th Street Photo, limit the application of *Katzel* and *Aldridge* to domestic registrants which have no corporate relationship

with foreign registrants.[8] In distinguishing *Katzel*, this Court confirmed that *Katzel* served to protect the domestic goodwill represented by a trademark while insuring that the trademark would not be employed to deceive the public. As this Court explained:

> "A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. [Citation omitted] There is nothing to the contrary in *A. Bourjois & Co.* v. *Katzel* . . . . There the trademark protected indicated that the goods came from the plaintiff in the United States, although not made by it, and therefore could not be put upon other goods of the same make coming from abroad. When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth."

Prestonettes, Inc. v. *Coty, supra,* 264 U.S. at 368.[9]

Indeed, the federal petitioners have apparently acknowledged that the existence of "independent domestic goodwill"

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[8] *Prestonettes* was an action for injunctive relief commenced by Coty, the domestic and foreign registrant of the "Coty" and "L'Origan" marks, against a distributor which had purchased and repackaged Coty's "L'Origan" toilet powder and perfumes. In reversing an order directing the entry of injunctive relief, this Court found that defendant had not improperly used plaintiff's trademarks. Defendant's labels had merely advised the public that the contents of the repackaged merchandise originated from plaintiff. Accordingly, defendant had not misrepresented the source of the merchandise or otherwise infringed plaintiff's trademarks.

[9] In relying upon *Prestonettes,* K Mart and 47th Street Photo have failed to recognize the relationship between the foreign and domestic registrants in that action. Had this Court intended to restrict *Katzel* to so-called "independent" domestic registrants, this Court could have disposed summarily of the *Prestonettes* appeal since Coty was both the domestic and foreign registrant of the "Coty" and "L'Origan" trademarks. *See Coty* v. *Prestonettes, Inc.,* 285 F. 501, 504-5 (2d Cir. 1922), *rev'd,* 264 U.S. 359 (1924).

serves to trigger the exclusionary provisions of § 42 of the Lanham Act. As the Court below observed:

> "The appellees note that Holmes' opinion in *Katzel* (upon which *Aldridge* relied) emphasized that the plaintiff had expended considerable sums in advertising the French firm's powder, so that 'the labels have come to be understood by the public here as meaning goods coming from the plaintiff.' 260 U.S. at 691, 43 S. Ct. at 245. Thus, it is argued, *Katzel* and *Aldridge* suggest that a plaintiff must demonstrate the existence of independent domestic goodwill before he may prevail on a claim that goods bearing an identical but genuine trademark infringe his trademark, and likewise before he may demand that such goods be excluded from importation under Section 42."

COPIAT, supra, 790 F.2d at 910 n. 10.

The Customs Service regulations do not represent a reasoned interpretation of § 42 of the Lanham Act. As the federal petitioners have conceded previously, the existence of independent domestic goodwill, not an artificial standard premised upon the domestic registrant's corporate affiliation, should serve as the basis for excluding entry to foreign-trademarked merchandise under § 42 of the Lanham Act. Should this corporate litmus test be sustained as the basis for enforcing § 42 of the Lanham Act, domestic trademark registrants, like Lever Brothers, would be required to pursue countless infringement actions while the Customs Service continues to sanction the importation of merchandise which damages the registrants' domestic goodwill and creates consumer confusion. *See Original Appalachian Artworks, Inc.* v. *Granada Electronics, Inc., supra; Olympus Corp.* v. *United States, supra,* 792 F.2d at 320. Such a result can hardly be justified as a reasoned approach to the enforcement of domestic trademark interests.

Conclusion

For all of the above reasons, the decision of the Court of Appeals for the District of Columbia Circuit should be affirmed.

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